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Agricultural Situation

Decrees on Agricultural Subsidization

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Report Highlights:

Seven government decrees on subsidization of Russian agriculture and aquaculture issued in the waning days of 2006 lay the groundwork for expanded availability of credit to producers and for direct payments to livestock producers. Interest rate rebates are made available to both large and small producers, including private plot holders, and are extended to commercial fish farms as well. Peasant farmers and private plot holders are generally eligible for federally funded interest rate rebates of 95% on loans up to 3 million rubles, while corporate producers are eligible for federally funded rebates of two-thirds of the interest rate. A cost-sharing provision stipulates that participating provinces must rebate the remainder of the interest rate to eligible borrowers, making loans covered by these programs interest free.

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SUMMARY

Seven Russian government decrees on subsidization of agriculture and aquaculture issued in the waning days of 2006 lay the groundwork for cheapening of credit to producers. Peasant farmers and private plot holders are generally eligible for federally funded interest rate rebates of 95% on loans up to 3 million rubles, while corporate producers are eligible for federal rebates of two-thirds of the interest rate. A cost-sharing provision stipulates that participating provinces must rebate the remainder of the interest rate to eligible borrowers, making loans covered by these programs interest free. Direct payments are also authorized for brood cattle, sheep, goats, reindeer and free-range horses.

Though the decrees cite the 2007 budget act, the programs of credit subsidization are an extension of the National Priority Project on Development of the Agroindustrial Complex (please see GAIN Report RS-5086).

The original Russian-language text of the decrees was published in the official Russian government newspaper, *Rossiyskaya gazeta*, January 12, 2007. A page with links to all seven decrees can be found on the World Wide Web at <http://www.rg.ru/sujet/2863.html>.

THE DECREES

December 28 through 30, 2006, the Russian government issued seven decrees on state support for agriculture and aquaculture, all of them focused on interest-rate rebates for loans to agricultural producers. The seven are:

No.	Date	Subject
826	12/28/2006	Interest-rate rebates on 3-year loans to citizens with private subsidiary plots
832	12/29/2006	Federal budget subsidies to budgets of subjects of the Russian Federation ¹ for implementation of government support of the agroindustrial complex
834	12/29/2006	Interest-rate rebates on 8-year loans to agricultural producers, peasant farmers, and fish farms for construction, renovation and modernization
877	12/30/2006	Interest-rate rebates on 2-year loans to agricultural consumer cooperatives
878	12/30/2006	Interest-rate rebates on loans to agricultural producers, peasant farmers, consumer cooperatives, repair and input supply organizations
879	12/30/2006	Interest-rate rebates on 5-year investment credits extended to agricultural producers and commercial fish farms for brood stock, equipment and machinery
880	12/30/2006	Direct payment subsidies in support of brood cattle, sheep, goats, reindeer and free-range horses

Common Provisions

Each of the decrees specifies that funding from the federal budget is to be channeled through the provincial budgets of the subjects of the Russian Federation, subject to applicable rules and regulations, and that each subject of the federation is to designate an agency to collaborate with the Ministry of Agriculture in program implementation. Several stipulate that a subject of the federation may delegate authority to disburse funds to lower-level (*rayon*, municipal) administrative units. In all cases, however, responsibility for assuring that funds

¹ The phrase "subjects of the federation" refers to provincial political subdivisions (*oblasts*, *krais*, titular republics, autonomous *okrugs*, and so on), and not to the citizenry.

are used as intended lies with the agency of the subject of the federation designated as the Russian Federation Ministry of Agriculture's collaborator.

Several of the decrees include as potential beneficiaries agricultural production units in the category of "agricultural commodity producers and organizations of the agroindustrial complex" and stipulate that eligibility is not dependent on the type of organization.² Nonetheless the decrees differentiate between corporate commodity producers (i.e., corporate entities), on the one hand, and peasant farmers plus private plot producers (i.e., individuals) on the other. The former are generally eligible for rebates of 2/3 of the interest rate on loans via the federal subsidy program; the latter are eligible for 95% federal rebates.

The decrees largely concentrate on the livestock sector, in line with the National Priority Project announced in November 2005 for accelerated development of livestock. Two of them include aquaculture.

All programs covered in these decrees require that applicants be informed of approval or disapproval within 10 days of application, and that reasons for disapproval be provided. Applications will be rejected for rebate of interest on past-due loans as well as from applicants guilty of either violating their loan agreements or of tax delinquency. The decrees establish quarterly reporting requirements for local implementers of the programs and require that application documents be logged, bound and sealed.

The programs also require proof that funds were used for intended purposes (affidavits or other certification) and provide authority for audits.

Decree 832

Decree 832 is an umbrella decree, providing the general authorization for the Ministry of Agriculture to offer budget subsidies to Russian provinces in support of the agroindustrial complex. It specifies that the Ministry of Agriculture may transfer in the first quarter of 2007 subsidy funds of up to 30 percent of the Ministry's annual volume of funds intended for that purpose, and lists items eligible for that support:

- brood cattle, sheep, reindeer, and free-range horses;
- elite seed and imported seed for forage crops suitable for northern regions;
- flax and hemp production;
- perennial grass plantings;
- agricultural chemicals; and
- crop insurance premiums.

² Russian corporate agricultural producers, in the Soviet era known as state or collective farms, are today incorporated in a confusing array of varying legal entities, with the "ZAO" (closed joint-stock society), "OAO" (open joint-stock society), "TOO" (limited liability partnership), "OOO" (limited liability society), and "SKhPK" (agricultural production cooperative) among the most common. On top of this, some Soviet-style collective (*kolkhoz*) and state (*sovkhoz*) farms continue to exist. These corporate entities are joined by the "KFKh" (peasant farm) and "LPKh" (private subsidiary plot), which exist as property of an individual, not a corporate entity. Adding to the confusion, it is not uncommon for a single farming operation to be registered as both a peasant farm and one of the corporate types, in order to ease access to credit and ability to open bank accounts, as well as to reduce political opposition from anti-farmer politicians. A history of overt discrimination against certain types of production units lies behind the decrees' language regarding eligibility regardless of organizational type.

This decree also stipulates that cost-sharing will be required from subjects of the federation for 8-year loans for construction, renovation and modernization of livestock and aquaculture operations, and for 5-year loans for purchase of brood stock, machinery and equipment for livestock and aquaculture operations. This cost-sharing is set as a rebate of interest on loans at 1/3 of the Central Bank refinance rate. A similar cost-sharing requirement is imposed for rebates to agricultural cooperatives, peasant farmers and private plot holders of 5% of the Central Bank refinance rate. In other words, whatever portion of the interest rate the federal subsidy does not rebate must be covered by the provincial government, essentially making loans to eligible beneficiaries interest-free.

Monitoring of use of funds is assigned to the Ministry of Agriculture and the Federal Financial-Budget Surveillance Service, and the Ministry of Agriculture is authorized to enforce Russian law on proper use of these funds.

Decree 826

Decree 826 defines eligible beneficiaries as private plot holders who borrowed money in 2005 for up to three years in order to buy domestic-origin agricultural raw materials for primary and industrial processing, motor fuels and lubricants, spare parts and repair materials for agricultural machinery, mineral fertilizer, plant protectants, veterinary pharmaceuticals, and other inputs for seasonal work, as well as for purchase of replacement livestock and poultry and for payment of crop insurance premiums and installment payments on investment credit.

Decree 834

Decree 834 establishes rules for subsidizing loans of up to 8 years tenor for investment by corporate agricultural producers and agroindustrial organizations, peasant farms, and commercial fish farms in construction, renovation and modernization of livestock and fisheries complexes. Funds must be borrowed in 2006 or 2007 for livestock operations, and in 2007 for fisheries operations.

Decree 877

This decree implements rebates of interest on loans issued in 2006 and 2007 to agricultural consumer cooperatives for terms of up to 2 years. Loans must have been for purchase of domestic agricultural raw materials for primary and industrial processing, motors fuels and lubricants, spare parts and materials for repair of agricultural machinery, mineral fertilizers, plant protectants, feed, veterinary pharmaceuticals and other inputs for seasonal work on a list approved by the Ministry of Agriculture; for purchase of replacement livestock and poultry, payment of crop insurance premiums paid by agricultural consumer cooperatives³.

Decree 877 adds the following conditions:

- local authorities have the right to use banks to handle documentary requirements for extending subsidies to cooperatives, and
- the borrower must show proof it is listed in the Unified State Registry of Corporate Entities.

³ Further specifically defined as cooperatives for "procurement, supply, marketing (trading), processing, services" created under authority of the federal law on agricultural cooperatives, and in which no less than 70 percent of the membership comprises peasant farms and citizens engaged in private plot agriculture.

Decree 878

Decree 878 sets rules for rebating interest on loans to agricultural commodity producers, agroindustrial organizations, peasant farms, consumer cooperatives, and other repair and input supply organizations. Loans taken out Dec 15-31, 2006, and due at any time, or loans taken out at any time during 2006 and due before April 1, 2007, from Russian banks are eligible if for the following purposes:

- Purchase by agricultural producers and peasant farmers of motor fuels and lubricants, spare parts and repair materials, mineral fertilizers, plant protectants, feed, veterinary pharmaceuticals and other inputs for seasonal work that appear on the approved list of the Ministry of Agriculture, as well as for purchase of replacement livestock and poultry and payment of crop insurance premiums;
- Purchase by agricultural producers regardless of organizational form and by consumer cooperatives of domestic agricultural raw material for primary and industrial processing;
- Purchase and delivery by repair and input supply organizations of spare parts and repair materials for agricultural equipment.

Decree 879

This decree authorizes rebate of interest on investment credits of up to 5 years tenor extended to agricultural commodity producers, agroindustrial organizations, and commercial fish farms for purchase of brood material, equipment, and machinery for livestock and fish complexes. Eligibility is extended to loans taken out in 2006 and 2007 for livestock operations and in 2007 for fishery operations.

This decree stipulates as well that loans in foreign currencies are eligible, and the rebate will be calculated using the exchange rate as of the the date interest is paid. The maximum interest rate for foreign currency loans is 12 percent per annum.

Decree 880

Decree 880 sets rules for federal direct payments to be paid through the provincial budgets for support of brood cattle, sheep, reindeer and free-range horses. Eligibility is extended to corporate agricultural producers regardless of organizational type and to peasant farms; the producers and farms must be included in the list of eligible beneficiaries approved by the Ministry of Agriculture and provincial governments. Direct payments will be as follows:

Type of Animal	Rubles per Annum ⁴
Cow	3,000
Bull (proven sires only)	50,000
Ewes and Nannies ⁵	55
Reindeer (regardless of sex)	252
Horse (regardless of sex)	153

The decree stipulates that provincial authorities are to compile and authenticate applications and to forward them to the Ministry of Agriculture, which will calculate subsidy levels.

⁴ RUR 26.5 = \$1.00

⁵ Payment is to be made based on official statistics as of January 1, and "absent such data for peasant farms, total sheep and goat inventory times 0.6 will be used."

ANALYSIS

Direct Payments (Decree 880)

The high direct payments offered to corporate and peasant farms for brood cows and proven bulls are part of an effort to reverse the continued decline in cattle numbers. From 1990 to 2006 bovine inventories fell in Russia by over 60 percent. Virtually all that decline took place on former state and collective farms until 2005. In that year for the first time an additional 5-percent drop was noted on private plot holdings of cattle, which at that point represented half of Russia's bovine inventory. Since Russia is dependent on a rapidly aging rural population's private plots for half of its meat and milk, urgent measures are needed to resurrect commercial dairy production.

In concert with ongoing imports of live animals, semen and embryos under the National Priority Project for accelerated development of the livestock sector, these direct payments for bulls and cows are intended to increase incentives for private investment in dairying. Due to high capital investment requirements, it takes seven to ten years for a newly created dairy farm to begin to turn a profit, and thus some sort of cash flow is needed to keep a new dairy farm afloat until the red ink stops flowing. Payments of 3,000 rubles per cow could certainly help.

Inclusion of reindeer and free-range horses on the direct-payment list is a nod to ethnic groups historically dependent on these animals for their livelihoods.

Interest Rate Rebates

The interest rate rebates involve mandatory cost-sharing by the provincial governments, and therein lies a critical issue. The subjects of the federation most able to fund such cost-sharing out of their own budgets are either rich in some sort of non-agricultural natural resource (e.g., Belgorod oblast, with its iron mines, or Tatarstan, with its petroleum) or enjoy a relative advantage in agricultural production (e.g., the southern subjects of Krasnodar kray, Rostov oblast and Stavropol kray). Those subjects of the federation in poorer areas, particularly where agriculture is a poor cousin after extraction or manufacturing, may well choose not to participate or to participate at a relatively limited level. In other words, this program appears structured to benefit those production areas likely to make best use of the program funds, and in that regard is more a production-oriented program than a social-support ("preservation of way of life") program.

That said, inclusion of peasant farmers and rural cooperatives is part of the growing recognition that large-scale agricultural enterprises (whether "agroholdings" or some other form of ownership) are not a panacea for the ills afflicting rural Russia. Whereas two years ago it was not uncommon for agricultural leaders to declare that no more than 20 agroholdings were needed to feed Russia, today there is broad recognition of the need to address widespread rural poverty, accelerating decline in livestock numbers, and depopulation of swaths of Russian territory, through support of small-scale farming and entrepreneurship. Critical to the success of this effort will be the degree to which Russia's two major rural banks, the Russian Agricultural Bank and Sberbank, can both expand their branch networks nationwide and then link their branches to the expansion of rural credit cooperatives called for in the National Priority Project.

Russia has not been able to increase significantly output of aquaculture for years. Addition of aquaculture to the list of eligible activities is in line with Minister of Agriculture Aleksey Gordeyev's recent declaration of 2007 as "Year of the Fish" and represents an effort to spur growth in this sector. With commercial ocean fisheries in disarray, and in view of the ongoing

collapse of Caspian Sea fisheries, aquaculture is increasingly viewed as a means of providing affordable animal protein. Since it takes at least 5 years for start-up aquaculture operations to turn a profit, this subsidized credit could well be useful. Interest rate rebates will help to address one of the major factors behind the sector's collapse; namely, the shortage of investment capital for overhaul of old fisheries and construction of new facilities.